

Smart Metering Directorate
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5th June 2015

Mr Paul French
Industry Director
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Dear Paul,

British Gas response to DCC's implementation milestones consultation

British Gas supports the principle of DCC being rewarded for successful delivery against milestones that are key to the success of the programme. We believe that the incentives should be meaningful and greater for the outcomes that are most crucial to the programme and most demanding of the DCC. We do however have significant concerns with the both the process of this consultation and the proposals that relate to it.

There is a potential conflict of interest which may impede the ability of the DCC to operate this consultation fairly.

We are surprised that the DCC is consulting on a matter that relates to its own remuneration; this conflict of interest could prejudice a fair outcome for industry and consumers. We would prefer an independent party, such as SECAS, collating the responses and prepare a summary for the Secretary of State.

The proposals create a weaker incentive on the DCC to deliver than the original baseline.

The implementation milestones within the DCC's licence are to incentivise the licensee to achieve the performance and timescales required by the smart metering programme. The balance between the performance and reward achieved is fundamental to the success of the smart metering programme. We feel that in the DCC's proposals that the balance has been significantly moved in favour of the DCC's ability to reach the targets with little consideration for the impact on the rest of the programme. We feel that the proposed incentive scheme is flawed in:

- The tapering profile and extended dates;
- Weightings; and
- Milestone split between CSP regions.

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We believe that the change to the tapering profile and the subsequent lengthening of the deadlines within the time factors are not balanced to the needs of the DCC's customers or the programme. We feel the DCC's proposals will fundamentally undermine the whole programme. We cannot understand why it should be allowable that the tapering dates will move from 9 weeks to 9 months as the impact on DCC Users and other SEC parties will be significant.

The weighting attached to stable services (IM11) is disconnected from its criticality to the programme.

Stable services are the acid test for the DCC. Whilst entering testing on time is important, outcomes can be artificial when compared to the reality of live operations. The proposals are fundamentally flawed in both the level of incentive attached to stable services (IM11) and the measurement time-frame. The DCC-live date is likely to be 3 months before any meaningful volume of smart meters are installed. The DCC cannot be rewarded for stabilising services before a meaningful volume of smart meters has been installed. Therefore the incentive must be constructed so that the DCC cannot be rewarded for stabilising operations before they are actually stable or indeed truly live.

We propose the following milestone weightings:

Implementation Milestone	Description	Current weighting	DCC proposed	British Gas view
IM8	SPs ready for SIT (formerly IM8 & 9)	20%	15%	20%
IM9	Start IT (formerly IM10 & 11)	25%	20%	20%
IM10	Live Operations (formerly IM 12)	15%	35%	15%
IM11	Stabilise Services (formerly IM13)	15%	5%	20%
Total		75%	75%	75%

A fundamental purpose of the DCC is to provide a single point of accountability - splitting incentives to individual service providers is contrary to this.

We do not agree that the DCC should split each incentive between Arqiva and Telefonica regions; we believe that all the incentives should remain whole and incentivise the DCC to reach the earliest possible date together. DCC reaching dates at different times could have a significant impact on DCC Users depending upon their regional profile.

I hope you find this letter helpful; it is a non confidential response and may be placed on the DCC's website. Please do not hesitate to contact either Rochelle Harrison or myself if you require any clarification on the points raised.

Yours sincerely,

Steve Briggs
 Head of Smart Metering Industry Infrastructure,
 Smart Metering
 British Gas

Annex – Answers to consultation questions

1. What are your views on the proposed recovery mechanism and the alternative approach?

We do not believe that the proposed recovery mechanism or the alternative approach are in the best interests of the programme and will not fully incentivise the DCC to perform at the level the smart metering programme requires nor expects. With such large gaps in dates in the proposed scheme, the programme would be allowed to slip with limited impact on the DCC's reward but significant consequences on DCC Users.

2. Do you agree with the proposal for recovery of IM4-7, where the time factor was greater than 0 to be proportionate to the tapering of IM10?

Milestones for IM4-7 have already passed and should be based on the regime in place at the time of the incentive; retrospectively applying a new regime is fundamentally wrong. If the equivalent milestone to IM12 (as per schedule 3) is met then the reward should be recovered in full.

If (the current) IM12 (i.e. live operations / DCC-live) is not met, the DCC should not be able to recover previously missed benefit. The recovery mechanism is in place to encourage the DCC to catch up, not earn benefit on continued delay.

3. Do you agree with the proposal for incentivising readiness for the start of SIT?

Yes, we agree that an incentive should be based on starting SIT. We do not agree that the tapered timescales should be doubled from 6 weeks to 12 weeks nor do we agree that this milestone should be split between the North and Central / South regions.

We expect to see full transparency of meeting the criteria (or not) for starting SIT as this is required by the programme, along with the date actually achieved.

4. Do you agree with the proposal for incentivising the readiness for the start of IT?

Yes, we agree that it makes sense to target the start of IT, rather than the end of SIT; however we do not agree with the proposed 9 months tapering. The current equivalent milestone (completion of SIT), IM10 has a 6 week taper window whilst the proposed IM9a/b has a proposed tapering window of 9 months.

We still feel there is a requirement for completion of UIT (originally IM11), i.e. 2 large suppliers having completed UEPT within 2 months of starting interface testing, as this will incentivise the DCC to work collaboratively with DCC Users to complete initial integration tests.

5. Do you agree with the proposal for incentivising the readiness for live enrolment and communication services?

Yes, however, we do not agree with the significant increase in weighting for achieving the new IM10 (previously IM12) and would prefer that the balance is shifted to ensuring the stability of operations after DCC live.

6. Do you agree with the proposal for incentivising beyond live enrolment and communication services?

Yes, however we feel that the incentive should be linked to the central planning assumption date of 1st August 2016 and any timescales on whether constraints are enforced should be extended to at least 12 months after the central planning assumption (as a minimum). Having an incentive that runs out between 3-6 months after DCC live when limited volumes of smart meters will be rolled out is disingenuous.

The weighting for this incentive needs to be increased from the proposed 5% closer to 20% as stable operations after go-live are key to the success of the programme (i.e. achieving mass rollout).

7. What are your views on the proposal for the proposed IM11 to be subdivided by 2 regional categories and alternative proposal set out above?

We do not agree that any of the incentives need to be split by CSP or region. The DCC should be rewarded on delivering the programme as a whole, not in piecemeal sub divisions.

8. Do you agree with the proposal to remove the current IM14?

No, as stated in response to question 4; we still feel there is a requirement for completion of UIT (originally IM11/14), i.e. 2 large suppliers having completed UEPT within 2 months of starting interface testing. This will incentivise the DCC to work collaboratively with DCC Users to complete initial integration tests. Whether this incentive is a reward, as in the original IM11 or a penalty for delayed completion, as in IM14 we have no strong views either way.

9. Do you agree with the proposal to introduce recognition of external dependencies and the concept of matters beyond the DCC's reasonable control in the implementation performance regime? Do you have any views, changes, additions to the provisional list of dependencies?

No, we do not agree. Whilst we understand the DCC's desire to produce a list of external dependencies and matters beyond your control, all programmes must manage risk and the DCC should not try to maximise their performance reward without managing the risk too. When the DCC's performance and reward are being decided, it is the responsibility of the DCC to ensure that full transparency of your actions in mitigating the risks are explained and understood.

10. Do you agree with the overall proposal to amend the implementation milestones?

No, we fundamentally disagree with the DCC's approach, in terms of taper and new timescales, weightings and splitting the milestones between the CSP regions. The implementation milestones within the DCC's licence are to incentivise achievement of the performance and timescales required by the smart metering programme. The balance between the performance and reward achieved is fundamental to the success of the smart metering programme. We feel that in the DCC's proposals that the balance has been significantly moved in favour of the DCC's ability to reach the targets with little consideration for the impact on the rest of the programme, particularly DCC Users.

We believe that the change to the tapering profile and the subsequent lengthening of the deadlines within the time factors are not balanced to the needs of the DCC's customers or the programme. We feel that the DCC's proposal will fundamentally undermine the whole programme. We cannot understand why it should be allowable that the tapering dates will move from a maximum of 9 weeks to 9 months as the impact on DCC Users and other SEC parties will be significant.

We believe the weighting of the IMs is incorrect, as more weighting is needed after live enrolment has commenced so the market is not constrained by the DCC. We believe the weightings need to be:

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We do not agree that the DCC needs to split each incentive between Arqiva and Telefonica regions; we believe that all the incentives should remain whole and incentivise the DCC to reach the earliest possible date with all Service Providers. DCC reaching dates at different times could have a significant impact on DCC Users depending upon their regional profile.